



REAL ESTATE DICTIONARY:

Abstract of title

A condensed history or summary of all transactions affecting a particular parcel of real estate, including the original grant, all conveyances and encumbrances affecting the property, and the abstractor's certification of the history's accuracy.

Acceleration Clause – A contractual provision that allows a lender to accelerate certain loan obligations such as the collection of a loan balance to become immediately enforceable. For example, if a loan agreement states that the entire loan balance will become due and payable in the event the borrower fails to make payments for a certain number of months, the loan balance is accelerated to become payable in full by the borrower to the lender.

Acceptance – The Seller's written approval of the Buyer's offer. Deadlines in the offer become triggered upon the seller's acceptance, so be aware of the date the seller accepts an offer and schedule the deadlines accordingly. See also mutual acceptance.

Acre – A measurement of land equal to 43,560 square feet.

Addendum – A document that is attached to an existing contract that adds to or modifies the existing contract. An addendum to a real estate contract often takes the form of a contingency such as inspection or financing or a counteroffer.

Adjustable-Rate Mortgage - A mortgage loan product that permits the lender to adjust the interest rate after a certain number of years. When the interest rate adjusts, the new interest rate is based on current interest rates on the basis of changes in a specified index. Interest rates may move up or down as market conditions change, and the loan interest rate and corresponding payment will adjust accordingly. Also referred to as an "ARM".

Administrator - An individual appointed by a court of law to administer the assets of a deceased person in probate. The Administrator is charged with selling property, paying debts and disbursing proceeds pursuant to the specific instructions contained in a will. In a real estate transaction, an Administrator is given the power to sell the property of a deceased person and must sign the purchase and sale agreement as the Seller. It is recommended that the Buyer review a copy of the Order appointing the Administrator to ensure the person selling the property has the necessary authority to do so.

Adverse Possession – The acquisition of land through open, hostile, exclusive and continuous use of another's land as your own. Adverse possession usually requires legal action to formally acquire title to land acquired via adverse possession, and is usually done in a quiet title action. For more information on adverse possession, we recommend you contact a licensed real estate attorney.

Agent

The individual that is assigned to represent you in your real estate transaction, also called a salesperson or selling licensee. When you retain an agent you are actually contracting with the broker. Because Washington law prohibits agents from entering into a contract with a client directly, the parties to a real estate transaction are actually the broker and the client. The agent then contracts with the broker and represents the broker in your transaction.

Agency – The relationship between a buyer or seller of real estate and their real estate broker. An agency is formed by a written agreement or when an agent performs real estate services for a principal. Be advised, when you retain an agent (i.e. Tom Jones) you are actually contracting with the broker (i.e. Navigation Real Estate), who in turn, contracts with the agent.

Alienation clause

A provision in a home loan that allows the lender to require the loan balance in full to the lender in the event the title to the home is transferred. Lender approval should be received, in writing, prior to transferring the title to your home to a family trust, limited liability company, S or C-corporation or any third party. To avoid the refinancing of your existing home loan to pay off a lender who has invoked a due-on-sale clause, you should consult a licensed real estate attorney to review your loan documents.

Annual Percentage Rate (APR) – The interest rate on a mortgage loan that includes both interest and the various costs of obtaining the loan such as points and closing costs. The APR reflects the cost of a mortgage as a yearly rate. The APR allows home buyers to compare different types of mortgages based on the annual cost for each loan. The APR is required to be disclosed under the Truth-in-Lending Act.

Application Fee -The fee charged by a broker/lender to review your home loan application.

Appraisal – A price opinion of a home or property performed by a licensed home appraiser. An appraisal is most often conducted in conjunction with a home loan or refinance. The appraiser drafts an appraisal report that reflects the price opinion and the support for the results. The appraisal may or may not include the costs associated with the home sale (i.e. commissions and closing costs).

Assessed Value – The value utilized by a taxing authority to levy a property or other tax. The assessed value is usually comprised of two values, one for the land and the other for the structure. For example if a home is assessed at a total value of \$400,000, the land may be assessed at \$250,000 and the structure at \$150,000.

Attorney-in-Fact - A type of agency relationship where one person holds a power of attorney allowing him to execute legal documents on behalf of another. Decisions made by the attorney in fact are binding on the principal.

Balloon - A one-time payment usually occurring at the end of a loan term. A balloon payment is often included in a real estate contract where the seller is financing a portion of the home purchase price. A seller may receive a stream of payments over a period of years then a one-time balloon payment at the end of the term. A buyer may refinance the property to pay-off the Seller where a balloon payment is due and payable.

Bankruptcy - A federal law whereby one can eliminate certain debts (chapter 7) or repay debt (chapter 13) in exchange for the disclosure of information and the turnover or repayment of non-exempt assets. Certain personal property exemptions and the Washington Homestead Act may allow you to protect assets while gaining protection from one's creditors. If a home-seller files bankruptcy anytime after entering into a purchase and sale agreement (and prior to closing), the sale must be approved by the bankruptcy court bankruptcy and the trustee administering the home-seller's bankruptcy must be a party to the transaction.

Baseboard – Any board or molding found at the bottom of a wall or interior.

Breach of Contract – Occurs when one party fails to perform an obligation contained in a contract. In the event a party breaches a contract, the non-breaching party may bring a lawsuit to enforce the agreement and/or sue for damages.

Building Permit – A permit issued by a governmental agency such as a city or county that authorizes the construction or renovation of a home or property.

CC&R's

Covenants, Conditions and Restrictions; or the rights and obligations of individual owners of real property within a subdivision (or other tract of land where there is more than one owner of property) in relation to other owners, or to the organized association of owners, within the same subdivision, relative to the use and maintenance of the property commonly owned among them.

Certificate of Occupancy

A document issued by a city or county certifying that a building is approved for occupancy. The certificate of occupancy is often required by insurance companies to insure the property and lenders prior to loaning money for a home purchase.

Certificate of title

A statement of opinion provided by a title company or attorney, based on examining public records, stating that the title to a piece of real estate is legally held by the current owner; because this certification does not cover matters not of record, it is no longer commonly used.

Closing - The final stage in a real estate transaction. Once an offer is accepted by the Seller, the purchase and sale agreement along with the Earnest Money and other documents are delivered to a Closing Agent. The Closing Agent opens an escrow account in the name(s) of the Buyer and Seller and processes the real estate transactions pursuant to escrow and lender instructions. The Closing is technically the actual transfer of home ownership from Seller to Buyer.

Closing costs – The various transaction costs incurred to finalize a home purchase and sale transaction. Closing costs may include the following fees and costs: Loan origination fee, Discount points, Appraisal fee, Title search and insurance, Survey, Taxes, Deed recording fee, Credit report charge and other costs. Pursuant to the Truth-in-Lending Act and federal laws, closing costs must be fully disclosed in a good faith estimate and included in the APR.

Commission

The fee paid to a real estate broker for representing a buyer or seller in a real estate transaction. The commission is a percentage of the home sale price and is paid by the seller to both the buyer's agent and seller's agent out of the proceeds of the home sale.

Comparative Market Analysis – A comparison of recent home sales and listings utilized by a real estate broker to provide an opinion regarding a home's value. A comparative market analysis or CMA should be performed by your agent when selling or buying a home. A CMA should also be utilized when purchasing a home to ensure that the seller has not priced the home too high.

Condemnation - The taking of private property for a public use through the constitutional eminent domain power. The party deprived of the property may be eligible to receive market value for their property.

Condominium - A system of individual ownership of a single unit in a multi-unit residential living facility, combined with common ownership of those areas such as walkways and swimming pools located outside the individual units but on the condominium property. Based on the nature of joint ownership, a condominium's day-to-day operations are conducted by a group of owners called a condominium association.

Construction Loan – A loan product utilized to finance new construction. Construction loan proceeds are usually distributed by the lender to the borrower in stages throughout the construction of the new home. The construction loan may then be "cashed out" by a conventional mortgage loan once construction is completed.

Contingency – An event such as financing or inspection that must occur and be satisfied after mutual acceptance. In the event a contingency fails to be satisfied the buyer may rescind the contract and the earnest money is returned to the buyer.

Conventional Loan – The most popular type of home loan made by a lender. It is neither a VA nor FHA loan and is made by a lender utilizing conventional lending guidelines, good credit scores, solid financial history and sufficient income. For more details on the risks and benefits of a conventional loan please consult your bank, mortgage lender or broker.

Counteroffer – A seller's response to a buyer's offer to purchase. When a buyer submits an offer to purchase real estate (via a purchase-and-sale agreement), a contract is formed only if the seller signs the purchase and sale agreement without requesting any modifications or revisions. When a seller proposes modification to the buyer's offer, this is called a counteroffer. A counteroffer has the same legal effect as an offer in that it becomes a binding contract when the other party agrees to the counteroffer without requesting any modifications. In other words, if a buyer accepts a seller's counteroffer a contract is created between buyer and seller. A counteroffer may also be utilized by a buyer to respond to a seller's counteroffer.

Covenant - A written agreement or restriction to the use of land or certain acts to be performed or avoided in relation to the home and land. A covenant is utilized in numerous subdivision developments to maintain the look-and-feel and sustain property values, among other reasons. Please consult a licensed real estate attorney to learn more about the legal effect of a covenant.

Credit Report – A report of your credit history and credit score issued and compiled by one of the three credit reporting agencies: Equifax, Experian, and Transunion. A Buyer's credit report is obtained by the Buyer's Lender to determine a Buyer's creditworthiness and the interest rate to be charged by the Lender. It is recommended that a buyer obtain a credit report prior to beginning his or her home search to avoid any surprises and to correct any errors. Errors on a credit report may cost buyers thousands of dollars in additional interest payments.

Credit Score – A number utilized by Lenders to determine creditworthiness and the interest rate to be charged to the Borrower. The most common credit score utilized by Lenders is the Fair Isaac Company (FICO) score. The FICO score is a number between 300 and 850 and is based on credit history, debt-to-income ratio and other credit-related factors. In most cases, there is an inverse relationship between credit score and interest rate, so the higher the credit score, the lower the interest rate.

Creditor - A person or entity to which a debt is due and owing from another person called a debtor. A creditor has the ability to initiate a lawsuit to obtain a judgment upon which the creditor can execute upon. Once the creditor has obtained a judgment, the creditor can utilize the judgment to put a lien on a home, garnish wages, bank accounts or other financial assets, or to otherwise seize non-exempt assets. The filing of a bankruptcy may stop a lawsuit or other creditor action. To learn more about creditor action, please consult a licensed bankruptcy or creditor rights attorney.

Damages - Monetary compensation which may be recovered in the courts by any person or entity that has suffered loss, detriment, or injury, whether to person, property, or rights through the unlawful act or omission or negligence of another. Damages may be sought against a buyer or seller who fails to fulfill his or her obligations under a purchase-and-sale agreement and who has failed to designate the forfeiture of earnest money as the sole remedy for a party's breach of contract.

Debt-to-Income Ratio (DTI) – The debt-to-income ratio is a percentage reflecting the amount of debt a Buyer maintains relative to the amount of income earned in a given month. On a conventional loan, the income is the gross monthly income, whereas in a VA or FHA loan the "net effective income" is utilized as the income component. (Net effective income is gross monthly income minus federal income tax). For example if a Buyer earns \$5,000 per month and pays \$4,000 in monthly debt, the Buyer's debt-to-income ratio is 80% and likely unable to assume much, if any, additional debt.

Debtor - One who owes a debt to another, and who may be compelled to pay a claim or demand or answer to legal action initiated by a creditor. In the bankruptcy context, a debtor is the individual or entity who files a voluntary bankruptcy petition or the person against whom an involuntary petition is filed. A judgment debtor is an individual or entity who owes money as a result of a judgment obtained by a creditor.

Deed – The written document conveying title from one party to another. The deed must be signed, acknowledged and delivered to the buyer. The deed is promptly recorded in the County where the property is located. There are several types of deeds (special warranty, general warranty and quitclaim to name a few) offering varying levels of protection to the Buyer.

Deed of Trust – A legal document in which a home-buyer agrees to pledge the home as collateral for repayment of the home loan. In the event a buyer defaults on the home loan, a trustee provides various notices to the buyer and if the buyer fails to cure the default, the trustee will conduct a sale of the property at a public auction. Buyer fails to make home loan payments. Unlike a mortgage, court action need not be undertaken by the lender to foreclose and the lender may not obtain a deficiency judgment.

Deficiency Judgment – The negative difference between the amount of money obtained by the lender following a foreclosure sale and the amount of money due and owing to the lender on the home loan. For example, if a foreclosure sale delivers \$190,000 to the Lender but the home loan is \$200,000, the Lender may be entitled to obtain a deficiency judgment against the homeowner in the amount of \$10,000 plus allowable costs and fees. A Deficiency Judgment may be obtained in a conventional mortgage, but not in a deed of trust.

Discount Points (Points) – Reductions in the home loan interest rate resulting after the borrower pays a certain monetary sum at closing. Each point is equal to 1 percent of the loan amount (e.g., two points on a \$100,000 mortgage would cost \$2,000). The end-result of utilizing Points is the borrower obtains a lower interest rate in exchange for cash paid at Closing. However, points should only be utilized if you intend to stay in your home for several years. To illustrate, if you pay \$6,000 in points and you save \$50.00 per month on your monthly mortgage, it would take 6 years for you to break even on the points paid up front on your mortgage loan.

Down-Payment - Money paid by the buyer to the Seller at closing equaling the difference between the mortgage loan amount and the home purchase price. Down payments usually are 5 percent to 20 percent of the sales price on conventional loans.

Due-on-Sale Clause – A provision contained in most home loans that accelerates the home loan to become due-and-payable in full following the occurrence of a stated event. A due-on-sale clause can be triggered when the title to the home is transferred to an individual other than the home owner and borrower. In the event a due-on-sale is triggered the homeowner must obtain a new home loan or risk foreclosure for failure to comply with the due-on-sale clause. When transferring the title of a home to a family member or wholly-owned family trust, you are advised to consult a real estate attorney to determine if a due-on-sale clause may be triggered.

Earnest Money - Money given by a buyer to a seller as an advance of the purchase price to assure the seller that the buyer intends on making a good faith effort to purchase the property. In some cases, a Buyer may lose its earnest money if it fails to complete the transaction as agreed upon. We advise you to consult your real estate agent to explore the circumstances that may cause you to retain or lose the earnest money if your sale transaction fails to close.

Easement – The right of one party to use another's property for a specified period and use. Examples include utility lines, railroad tracks and shared driveways. There are many types of easements and numerous ways to acquire an easement, so we advise you to obtain a title report and to consult a real estate attorney to advise you on any easement questions.

Encroachment - Real property or structures thereupon that extend beyond the owner's

property line onto adjacent land owned by someone else. For example, if someone builds a structure at the edge of their property without knowing the actual property boundaries, the structure may encroach upon land that they do not own. Having a professional survey performed before building near the property boundary is a good idea if no survey records are available so you can avoid any possible encroachment issues. If an encroachment can be proved, the adjacent landowner can initiate a legal action to force removal of the building or receive compensation for what he/she has lost in reduced property space.

Encumbrance – A debt (including tax debt), security interest or claim by a third party that appears on a home's title. An encumbrance must be resolved or satisfied prior to the home-owner obtaining a clear title to the home.

Equal Credit Opportunity Act (ECOA) - A federal law that requires lenders and other creditors to make credit equally available to all citizens without discrimination based on race, color, religion, national origin, age, sex, marital status or receipt of income from public assistance programs

Equity - The value of a homeowner's economic interest in real estate. Equity is computed by subtracting all home loans and other debts appearing on title from the value of the property. A homeowner's equity increases as he or she pays off her mortgage or as the property appreciates in value. When the mortgage and all other debts against the property are paid in full the homeowner owns 100% equity in his property.

Escalator Clause – An optional provision in a purchase-and-sale agreement that automatically increases the buyer's offer in the event other offers are greater. There are usually two aspects to an escalator clause: the escalator and the maximum price. The escalator is a dollar amount that the buyer's offer will exceed a higher offer. The maximum price is the top price the buyer is willing to pay for the home. For example if a buyer makes an offer of \$200,000 with an escalator of \$1,000 and a maximum price of \$210,000 and the highest offer is \$205,000, the escalator will increase the buyer's offer price from \$200,000 to \$206,000.

Escrow - Escrow is a process in which funds are deposited into an account to be held until the occurrence of specified events. In addition, escrow ensures that sale contingencies and lender requirements are fully satisfied. The purchase price is tendered to escrow by the buyer (or buyer's lender), who distributes the sale price to the seller following the performance of contingencies and lender requirements. Escrow also records deeds with the county or city where the home is located.

Escrow Agent (also called Closing Agent) - A person hired by the Escrow company (which may be a licensed escrow officer, title company or law firm), who ensures that all parties perform all contractual obligations (including sale contingencies) and lender instructions and who collects and disburses the money from the buyer to the Seller. The escrow agent also is responsible for conducting the signing of all loan and other agreements and documents and notarizing the same.

Execution - The legal process of enforcing a judgment, usually accomplished by the seizure and sale of a debtor's property. A creditor may only execute against non-exempt

property. Bankruptcy may delay or prevent a creditor from executing against a debtor's property.

Feasibility Study - An analysis of a proposed project with emphasis on the attainable income, probable expenses, and most advantageous use and design. A feasibility study may be included as a contingency in an offer to purchase real estate if the buyer intends to subdivide or otherwise develop the property.

Federal Housing Authority (FHA) - A division of the Department of Housing and Urban Development governing housing related issues. Its main activity is the insuring of residential mortgage loans made by private lenders. FHA also sets standards for underwriting mortgages.

FHA Loan - A home loan insured by the Federal Housing Administration open to all qualified home purchasers. While there are limits to the size of FHA loans, they are generous enough to handle moderately-priced homes almost anywhere in the country. As of June, 2006 FHA home loans in the state of Washington ranged from \$200,160 to \$335,800. For the most current FHA loan limits please see: http://www.fha.com/lending_limits.cfm.

Financing Contingency – A financing contingency conditions the buyer's home sale upon the buyer obtaining acceptable mortgage loan to purchase the home. If the buyer includes a financing contingency in his offer, the buyer must provide the lender's loan commitment to the seller within a certain number of days after the seller accepts the buyer's offer. If the buyer fails to deliver the loan commitment before the deadline, the buyer waives the financing contingency and will likely waive his or her financing contingency. However, if the buyer is unable to obtain acceptable financing and notifies the seller in writing of his or her inability to obtain financing, the buyer's earnest money will be refunded.

Fixed Rate Mortgage – A home loan in which the interest rate will remain the same throughout the term of the mortgage for the original borrower. A fixed rate mortgage may be 10, 15 or 30 years. To review the most current mortgage rates, please visit <http://www.bankrate.com> or contact your Lender.

Fixtures - Items such as plumbing and lighting affixed to buildings or land usually in such a way that they cannot be moved without damage to themselves or the property. Unless specifically excluded, fixtures are sold with and included in the home sale. However, the fixtures to be included in a home sale should be specifically identified in the buyer's offer. The transfer of personal property from seller or buyer should also include a bill of sale identifying the property to be transferred and the price (if any) the buyer shall pay.

Foreclosure – A legal process in which a home is sold by a lender or creditor to repay a home loan or other debt. If there is more than one mortgage or lien-holder on the title to the home and the lien-holder is not paid in full from the proceeds of the home sale, the balance will be assessed as a deficiency judgment.

General Warranty Deed - A general warranty deed offers the most protection of title to the Buyer. The Seller warrants the title to the property both before and during Seller's home ownership is clear and the Seller will defend the Buyer in the event any claim

arises.

Hazard Insurance – Insurance maintained by a homeowner that protects the homeowner and lender from any losses related to the damage or destruction of the home and property. The insurance coverage may include losses related to fire, water intrusion, natural disaster, or human negligence. To determine your specific coverage, it may be a good idea to consult an attorney experienced in real estate insurance.

Homeowner's Association – An association of people who own homes in a given area, formed for the purpose of improving or maintaining the quality of the area. In the context of a condominium, an association formed by a land developer or a condominium builder to provide for management and maintenance of the units, grounds and common areas. A homeowner's association is usually organized as a not-for-profit corporation pursuant to a declaration of restrictions or protective covenants.

Homestead – The dwelling house and the adjoining land where the owner resides. The homestead includes the land, appurtenances and buildings surrounding the main residence.

Homestead Exemption – A state (or federal) law allowing the homestead owner and his or her family to protect the homestead from creditors. In the state of Washington, the current homestead exemption is \$40,000. This means that if you owe \$400,000 on your mortgages and the home is valued at \$440,000, your home would likely be exempt from execution by creditors.

Implied Warranty of Habitability – An implied warranty of a landlord that the leased premises are properly maintained and are fit for habitation at the time of leasing and are fit for habitation for the entirety of the tenancy.

Impound Account – An account established by escrow to provide funds for a party's future needs. An impound account is usually utilized to hold funds for the payment of property taxes, insurance or other periodic debts against the property.

Inspection Contingency – An inspection contingency is an addendum to the buyer's offer that conditions the buyer's home purchase on a successful home inspection. In the event the buyer is not subjectively satisfied with the results of the home inspection, the buyer may cancel the transaction and retain his or her earnest money. Alternatively, the buyer may also request price and other offer modifications if the buyer still desires to purchase the home following an unsatisfactory home inspection. Be advised, the home inspection must be performed within a time deadline set forth in the purchase and sale agreement. If the buyer's intentions with respect to the inspection contingency are not provided to the seller within the time deadline then the buyer waives the inspection contingency.

Joint and Several Liability – Describes the liability of co-signers of the same obligation when each of the co-signers has the duty of fully performing the obligation. The creditor can sue one or both of the co-signers to recover the full balance of the obligation. Furthermore, it is not necessary that the creditor apportion any amount of the debt

between the co-signers and can pursue the full balance of the debt against one or both co-signers.

Joint Tenancy – The ownership of real estate arising out of the purchase or grant of real estate to two or more persons. Joint tenants have the same interest, commencing at the same time held by all joint tenants in an undivided interest. If one joint tenants ceases to be a joint tenant (through death or transfer), the former joint tenant's interest inures to the other joint tenants.

Jumbo Loan - A type of home loan which is larger than the limits set by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). Jumbo loans are usually available to borrowers who maintain impeccable credit scores and who earn higher income than FHA borrowers.

Lease Option-to-Buy – An option is a contract where the buyer purchases the right to purchase a home or land from a seller for a predetermined price and for a certain amount of time. A lease option may also be incorporated into a rental agreement where a buyer leases the home to purchase it at a price stated in the rental agreement. In most cases, a percentage of the monthly rent may be used by the eventual Buyer as a down payment toward the eventual purchase of the home. Home investors also utilize lease options to secure stable tenants who gain short-term payment relief in the event the tenants find themselves behind or unable to pay the mortgage.

Legal Description – Identifying words and phrases issued by the county in which the home is located that provides a legal location for the home to be purchased. Prior to closing, the legal description must be included in the purchase-and-sale agreement otherwise the buyer or the seller may face legal challenges in enforcing the purchase-and- sale agreement.

Lender Requirements - Contractual obligations by the home lender that must be performed prior to the lender disbursing the loan proceeds to the escrow agent. Lender requirements include income and liability verification, a home appraisal, as well as title and hazard insurance. It is the closing agent's responsibility to ensure that all lender requirements are fulfilled prior to transferring legal title from seller to buyer.

Lien - A lien can be a voluntary or involuntary encumbrance against the title of a home. A voluntary lien can be a home mortgage or equity line of credit where the homeowner grants a lien on the title of the property in exchange for the lender loaning the money. An involuntary lien can result from a creditor obtaining a judgment against a homeowner that ripens to a lien that attaches to the title of the property. In order to convey clear title to a property, all liens must be satisfied by the home owner. The satisfaction of a lien means the payment by the homeowner to the lien creditor and the creditor's removal of the lien from title. It is advised that you obtain a preliminary title report (and credit report) to avoid any unexpected liens that could result in significant difficulties in selling or refinancing your home.

Listing Agent – The broker that represents the seller in a real estate transaction. The Listing Agent may be responsible for: assisting the homeowner in arriving at a sale price; listing the home on the multiple listing service; marketing the home through yard signs, flyers and media exposure; receiving and forwarding offers to the Seller; and conducting open houses. The Listing Agent is oftentimes paid a commission on the

purchase or listing price of the home when a ready, willing and able buyer makes an offer on the seller's home. In most cases, a formal listing agreement must be signed by a seller in order for the broker to be entitled to a commission.

Loan Commitment – A written document stating that a Lender has agreed to lend a homebuyer a certain amount of money at a certain rate of interest for a specified period of time, along with other loan conditions such as: the origination fee, points, the annual percentage rate and the monthly charges. This document is provided by the Lender once the lending requirements have been met. When a homebuyer has proposed a financing contingency, the loan commitment must be provided within a certain number of days following the seller's acceptance of the buyer's offer. If the buyer fails to provide a loan commitment, the financing contingency is waived by the buyer.

Loan-to-value ratio (LTV) – The loan-to-value ratio is a percentage representing the amount of the home loan (i.e. \$400,000) compared with the appraised value of the home. For example, if a home loan is \$150,000 and the home price is \$200,000, the LTV is 75%.

Mortgage – A document that a home-buyer executes at Closing in favor of a lender in which the Buyer offers the home as security or collateral to ensure repayment of a home loan. In the event a homeowner fails to repay the home loan, the Lender may initiate foreclosure and sell the home to repay the home loan. To foreclose, the lender must often institute a court action and the borrower may have the right to reclaim the property after foreclosure for up to one-year. A Deficiency Judgment may be obtained in a mortgage foreclosure.

Mortgage Broker (Broker) - An individual or company licensed to act on a borrower's behalf to find a home loan suiting the borrower specific financial needs. Unlike a Lender, a Broker does not actually loan money, but acts as the intermediary between the Lender and Borrower. Also, a Loan Officer is an unlicensed salesperson employed by the Broker to originate and process home loans on the Broker's behalf.

Mortgage Lender (Lender) – An individual or company who lends the money for the Buyer to purchase a home. The Lender is akin to a bank in that it supplies the actual funds to the Buyer, whereas a Broker charges a fee to locate a Lender who fits the Buyer's home loan needs.

Mutual Acceptance – The seller's acceptance of an offer to purchase a home made by a Buyer. In most cases, the Buyer submits an offer in the form of a purchase-and-sale agreement and the seller accepts the offer by signing the purchase-and-sale agreement and delivering it to the buyer. Upon Mutual Acceptance, earnest money is paid to Escrow and the Closing process begins where the Buyer and Seller are obligated to perform all contractual provisions in good faith to finalize the transaction.

Note - A document signed by the borrower of a loan, stating the loan amount, the interest rate, the time and method of repayment and the obligation to repay. The note is the evidence of the debt. Also called a Promissory Note.

Notice of Default – In the event a borrower fails to make mortgage payments as called for in the Note, the lender will issue a notice of default to advise the borrower of the requirements to reinstate the loan.

Novation – A type of substituted contract that has the effect of adding a party, either as obligor or obligee, who was not a party to the original contract. Mutual agreement is necessary for a novation to be enforceable by and between the parties.

Offer – A formal request from a Buyer to purchase real estate from a Seller. An Offer is usually made via a signed Purchase and Sale Agreement. The Offer must contain certain terms such as the proposed purchase price, contingencies, closing date and other information necessary for a Seller to evaluate the Offer.

Offer and Acceptance – The two elements that constitute mutual acceptance, a requirement of contracting. In a real estate transaction, the buyer makes the offer and the seller accepts the offer. See also Offer, Counteroffer and Acceptance.

Offer Expiration Date – The date in which an Offer to purchase real estate expires. A seller may accept the buyer's offer anytime before the offer expires. If a buyer wants to rescind the offer, he or she must do so, in writing, before the seller accepts the offer. The offer expiration date must be included in the purchase-and-sale agreement.

Origination Fee - The fee charged by a lender to prepare loan documents, perform credit checks, inspect and sometimes appraise a property. The origination fee is usually computed as a percentage of the face value of the loan and can range from 1% to 2% of the amount of the loan.

Partition – The dividing of lands held by joint tenants or tenants in common. The result of a partition is the individual ownership of land held by more than one owner. Most often, a court will order the property sold and the proceeds divided among the co-owners in a partition action.

Personal Property – Everything that is the subject of ownership, except real estate. Personal property includes money, goods, chattels, and all property other than real estate. In a real estate transaction, it is important to include a bill of sale for any items of personal property that are to be transferred from seller to buyer.

Plat – A map of a specific land area such as a town, section or subdivision showing the location of boundaries of individual parcels of land subdivided into lots, with streets, alleys, easements, etc. usually drawn to a scale.

Plat Map – A plat which gives legal descriptions of parcels of property by lot, street, and block numbers. A plat map is drawn after the property has been described by some other means such as a Government survey. Once a plat map is set, legal descriptions are defined by referring to the given map, in a lot-and-block description.

Pre-Approval – After submitting relevant financial, credit and other information, your lender will issue a letter pre-approving you for a home loan in a specified range or dollar amount. The pre-approval is provided to the listing agent along with your offer. **IMPORTANT:** You must obtain pre-approval for a specific dollar amount prior to submitting your offer. A seller may decline your offer if you fail to submit a pre-approval along with your offer. The seller does not want to risk tying up a home in a purchase and sale agreement if the buyer will not qualify for financing.

Premises Liability Insurance – Insures the homeowner against certain injuries incurred by persons visiting the homeowner’s residence. Examples of claims arising under a premises liability policy include injuries and property damage sustained as a result of: slip-and-fall, dog bites, structural and electrical defects.

Prepayment Penalty – A sum to be paid by the borrower in the event the borrower sells the home and pays the Note in full before a certain date. An effect of a pre-payment penalty is that it usually prevents a homeowner from selling his or her property before the expiration of the pre-payment penalty. Always consult your broker and/or lender to determine if your mortgage loan contains a pre-payment penalty.

Presale - A pre-construction sale program by a condominium developer who is required to sell a certain percentage of units before a lender will commit to finance construction of the project. In a pre-sale there is a reservation period prior to construction then a contract period once construction has been completed. A pre-sale may or may not be capable of assignment or sale. For more information on pre-sale opportunities contact a licensed real estate attorney.

Prime Rate – Usually defined as the lowest rate of interest charged by a specific lender to its most credit worthy borrower for short-term unsecured loans. It is used as the floor or base rate for setting interest rates on other loans, such as loans involving a variable interest rate.

Private Mortgage Insurance (PMI) - In the event that you do not have a 20 percent down payment (80% LTV), lenders may require the borrower obtain PMI that insures that the borrower’s payment of the monthly mortgage loan installments. The PMI insurer will pay the mortgage to the lender in the event the borrower defaults and fails to make payments. Private mortgage insurance will require an initial premium payment of 1.0 percent to 5.0 percent of your mortgage amount and may require an additional monthly fee depending on you loan's structure.

Probate - The formal judicial proceeding to prove or confirm the validity of a will. The will is presented to the probate court, and creditors and interested parties are notified to present their claims or to show cause why the provisions of the will should not be enforced by the court. A home may or may not be capable of sale during the probate process. For more information on probate, contact a licensed probate attorney.

Promissory Note (Note) – In a real estate transaction, the promissory note is the legal agreement between Lender and Borrower which defines the repayment terms and conditions for default. In the event a Borrower defaults on any condition (including payment) contained in the Note, a Lender may initiate foreclosure proceedings.

Purchase-and-Sale Agreement – In the state of Washington, a buyer submits an offer to purchase real estate in the form of a purchase-and-sale agreement (PSA). The PSA is drafted by the buyer and submitted to the seller for his or her review. If the seller desires to accept the buyer’s offer, he or she signs the PSA and a legally binding contract is formed. The PSA defines the rights, duties and responsibilities of each party in connection with a home purchase transaction. The PSA also sets forth the conditions for sale including contingencies such as financing and inspection and relevant dates in which various events must be performed. If one party fails to perform the obligations

contained in the PSA, the buyer may forfeit his or her earnest money or risk a lawsuit for actual damages, while the seller may be sued for specific performance or actual damages by the buyer.

Quiet Title Action – A proceeding to establish the plaintiff's title to land by bringing into court any adversary and compelling him either to establish the claim or be forever barred from asserting any claim against the property.

Quitclaim Deed - A quitclaim deed offers the least protection to the buyer when property is conveyed. It offers no warranty of any kind. It says, in effect, "I don't know what kind of title I have, but whatever I have is yours." If the transferor has nothing, then he or she transfers nothing, and the transferee will have nothing when the transfer is complete. On the other hand, if the transferor has complete title, then the transferee will receive that complete title in the transfer. A quitclaim deed is oftentimes used in a divorce to transfer title from one spouse to the other.

Rate Lock (lock-in rate) - Refers to the agreement between the borrower and the lender or broker that requires the loan to be closed within a certain period of time (for example, 30 or 60 days), and the interest rate on the loan will be set (locked) at an agreed-upon rate. A "rate lock" agreement must be in writing or it will be unenforceable. If the loan fails to close during the lock-in-time, the Buyer will lose the locked-in rate.

Real Estate Broker – A business or individual licensed by the state to represent buyers and sellers in the advertisement, negotiation or purchase and sale of homes, land and other business opportunities where real estate is being sold. The Real Estate Broker typically earns a commission on the sale price of the home. At Navigation Real Estate the Broker is also a licensed attorney at law.

Real Estate Agent/Salesperson. A person licensed by the state and employed by a broker who represents the broker in the advertisement, negotiation or purchase and sale of homes, land. A real estate agent is essentially an agent of the broker who represents buyers and sellers in real estate transactions. A real estate agent earns a commission usually based on the sale price of the home purchased/sold.

Real Estate Contract (also called Land Installment Contract, Contract for Deed) – A means of financing a real estate purchase whereby the buyer and seller enter into a contract in which the Buyer agrees to pay a portion of the purchase price directly to the seller. A real estate contract usually calls for a series of payments by the buyer for a period of years, then a one-time balloon payment for the remaining principal on the contract. For example, if buyer and seller agree to a real estate contract, the contract may require the buyer to make monthly payments of \$1,500 per month for 3 years then a balloon payment of \$20,000 at the end of the three years. You are advised to contact an attorney to obtain legal advice in the event you desire to finance your home purchase with a real estate contract. Also called seller financing.

Real Estate Settlement and Procedures Act (RESPA) - A federal law that allows consumers to review information on known or estimated settlement costs once after application and once prior to or at a settlement. The law requires lenders to furnish the information after Borrowers submit a loan application only.

Rescission – The cancellation of a contract. Rescission may result from the failure of an inspection or financing contingency or may be the result of the Buyer getting cold feet. Depending on the contingencies contained in the purchase and sale agreement, the Buyer may or may not be entitled to a refund of his or her Earnest Money.

Restrictive Covenant – A provision in a deed limiting the use of the property and prohibiting certain uses to maintain or enhance the value of lands adjacent to one another by controlling the nature and use of surrounding lands.

Selling Agent (also called Buyer's Agent) – The broker or salesperson who represents the Buyer in a real estate transaction. The Selling Agent may be responsible for: locating a home for purchase; assisting the Buyer in arriving at an Offer price; drafting the purchase and sale agreement; negotiating with the Listing Agent on the Offer; arranging for Inspection and assisting the Buyer with contingencies; working with the Buyer's Loan Officer to answer questions regarding financing; and tracking the transaction in Closing. The Selling Agent is oftentimes paid a commission on the purchase price. The Seller is usually responsible to pay the Selling Agent's commission.

Setback – A distance from a curb, property line, or structure within which building is prohibited. Setback requirements are usually provided by city ordinances or building codes.

Special Assessment – An assessment in the nature of a tax levied upon property according to the benefits conferred on the property. It is levied against property owners for improvements such as public sewer, roads or sidewalks.

Special Warranty Deed - A deed conveying property in which the grantor warrants, or guarantees, the title only against defects arising during the period of his or her tenure of property ownership. The special warranty deed does not protect the homebuyer against defects existing before that time, generally using the language, "by, through or under the grantor but not otherwise."

Specific Performance - The remedy of requiring exact performance of a contract in the specific form required under the contract. Specific performance may be sought in a legal action where money damages would be inadequate compensation for a party's breach of a contract. In a real estate contract, a buyer may seek specific performance to compel the seller to sell his or her property to the buyer in the event the seller fails to fulfill his or her obligations contained in the purchase-and-sale agreement (PSA). Specific performance may only be sought if it has not been waived in the PSA.

Subordination Agreement – An agreement by which a creditor holding a senior mortgage lien (or other lien) consents to a reduction in priority to a lien held by a creditor who maintains an inferior lien position.

Survey - A measurement of land, prepared by a certified land surveyor, showing the location of the land with reference to known points, its dimensions, and the location and dimensions of any buildings that may establish the territorial boundaries and property lines for real property.

Title Abstract - The notes made by a title examiner based on his examination of the land records. These notes are a concise summary of the transactions affecting the property. The title agency produces a binder from the information in the abstract.

Title Insurance - Insurance that provides financial protection against loss or damage as a result of defect in title ownership to a particular piece of property. Title insurance covers mistakes made during a Title Search as well as matters which could not be found or discovered in the public records such as missing heirs, mistakes, fraud and forgery. If a claim is asserted against a homeowner that seeks to alter or cloud the homeowner's title, the claim may be submitted to the homeowner's title insurance company who may defend the claim if it is covered under the homeowner's title insurance policy. For questions regarding title insurance coverage, please contact your title insurance carrier or a licensed attorney for further information.

Title Search - An examination of public records, including court actions, to disclose facts concerning the ownership of real estate. The title examiner prepares a title abstract and the title agent prepares a binder but decisions regarding the legal sufficiency of title or questions requiring legal interpretation must be resolved by a licensed attorney at law.

Townhouse - A type of dwelling unit normally having two floors, with the living area and kitchen on the base floor and the bedrooms located on the second floor. A townhouse may or may not include ownership in common areas, or otherwise require the owner to pay association dues.

Truth-in-Lending Act (TILA) – A federal law obligating a lender to give full written disclosure of all fees, terms and conditions associated with a residential home loan.

Variable Interest Rate – An interest rate that may adjust pursuant to the terms in the promissory note. A variable interest rate is usually tied to the prime rate.

Void Contract – A contract that is null; ineffectual; nugatory; having no legal force or binding effect; unable, in law, to support the purpose for which it was intended. A void contract cannot be enforceable by any party and no action may be undertaken to render the contract enforceable.

Voidable Contract – A contract that is valid, but which may be legally voided at the option of one of the contracting parties. A contract that is void as to the wrongdoer but not void as to the wronged party, unless the wronged party chooses to declare the contract void.

Walk-through Inspection – A physical examination of the property which usually takes place immediately prior to closing to ensure that no changes have taken place and no new damage has been done to the property since mutual acceptance. May also be used to confirm that fixtures and chattels included in the sale remain on the premises.

Waste – Action or inaction by a possessor of land causing unreasonable injury to the holders of other estates in the same land. An abuse or destructive use of property by one in rightful possession.

Wetlands - Lands restricted for development as a result of their proximity to bodies of water and the fact that they are occasionally or often flooded. May also be environmentally sensitive.

Wraparound Mortgage - A secondary financing option in which new money borrowed is blended with money already owed and registered on title to the property. A second mortgage is registered as security for the new money but the old mortgage remains in existence and the rate of interest is a blend of the rate chargeable on the old mortgage and the rate chargeable on the newly borrowed money.

Zoning – The system of classifying and regulating the development and use of real property. Local government commissions pass ordinances governing the zoning of private property.

VA – Department of Veteran’s Affairs, the federal agency which guarantees loans made to qualifying veterans. For more information on VA loans, please visit <http://www.va.gov>.